



STATE OF DELAWARE

PUBLIC SERVICE COMMISSION

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March 29, 2017

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Dear Community Member,

On Thursday, April 19, 2017 the Delaware Public Service Commission Staff held a meeting with the landowners in the Holiday Pines development regarding the water system that serves the community. Approximately 30 residents, representatives from Tidewater Utilities, Inc., various state agencies, and elected officials were present at the meeting. We are sending this follow-up letter to recap the discussion and to update those who were unable to attend concerning the outcome of the meeting and the path forward and next steps for addressing the water service issues in the development.

The Commission Staff opened the meeting by providing a brief description of the issues surrounding the water operations in the development that needed to be corrected. Staff explained that although it is Staff's understanding that the water quality meets State and Federal Safe Drinking Water Quality Standards there are administrative issues with the operations that needs to be corrected including the need for a licensed water operator, the fact that the current operator does not have a Certificate of Public Convenience and Necessity (CPCN) to provide water service in the community and the operator has been charging rates that are not approved by the Commission and there is no approved tariff, which details the terms of the relationship between the water provider and the customers. In addition, residents had been complaining that there were issues with the pressure and flow of the water that is currently provided within the development.

Staff also described the process that has occurred to date to find a solution to these issues. As discussed, the Commission Staff and other State and federal agencies with the help of Tidewater Utilities initially evaluated the feasibility of installing individual wells for each of the homes within the development. Due to the size of the lots and the proximity of septic systems in the development this did not prove to be a viable solution. The installation of a central water system owned and operated by a licensed, knowledgeable, and certificated entity, funded through grants and or low interest loans was also considered. However, the process of acquiring low interest loans and or grants is complicated and such funding will likely be limited if at all available. Given the uncertainty of such funding, it has been determined that Tidewater, the entity that has the CPCN to provide water service in the development,

could install the infrastructure necessary to serve the community at its cost and the Commission could be asked to allow Tidewater to collect those cost in its rates.

Under this last option, the residents would need to connect to the system and would be charged the same rates that other Tidewater customers pay. Tidewater will likely try to offset its investment by continuing to pursue any grants and or low interest loans that might become available and any funding that is obtained will help to offset Tidewater's general rates for all of its customers going forward. This arrangement, if approved by the Commission, would allow Tidewater to install its infrastructure to, and within, the development without any upfront costs to the residents except for costs required to connect individual homes to the new system. It was discussed that, for those residents that meet certain income eligibility thresholds, there might be funding for these connection costs through Community Development Block Grants (CDBG) funds administered by Sussex County.

Tidewater's rates are higher than what residents have been paying for water within the development. However, the increased charges will be accompanied with benefits as well. Those benefits include water operators that are trained and licensed by the State to provide safe, adequate, and reliable water service. Tidewater has multiple operators so there will always be someone available to safely operate the water system. In addition, the new system will be connected to Tidewater's regional system that has overhead storage tanks and back-up generation in case of electrical outages. That means that you will still have water if there is an electrical outage in the area. Individual service lines will be equipped with valves that can be used to isolate individual homes instead of shutting down the entire development. Even if there is an issue with a water main, Tidewater will be able to limit the number of affected customers by closing valves that isolate the problem while continuing to provide service to as many customers as possible. Another advantage is that the system will be designed with fire hydrants that can be accessed by the local fire department in case of a fire. Fire hydrants in a neighborhood may help reduce the premiums for home owner's insurance and may help protect you and your property in case of a fire.

Jerry Esposito of Tidewater discussed the proposed construction process and timing for installing a new water system in, and to, the development. Tidewater explained that it would likely take 12 to 18 months to complete the project, including permitting and approvals. The actual installation and construction of water mains would be much shorter than that but he anticipates that the new water system could be operational within 18 months. The initial approval that needs to take place is to get Commission approval for Tidewater to install the system and include its costs in its future rates. As discussed above this approval would allow Tidewater to install the mains without upfront costs to the landowners within the development. Water would continue to be provided by the existing water system until Tidewater's water system is installed and customers should see minimal outages during the switchover from the existing water system to the new one. The existing system will be operated and maintained by the current provider until Tidewater's system is in place.

Tidewater also discussed its rates and what a customer would be charged based on three different levels of water usage. Tidewater's rates include a minimum charge that is applicable whether you use any water or not. This fixed charge is designed to cover the costs of providing service that do not change when your usage changes. Costs that are typically in the minimum charge include costs such as the water lines and other infrastructure, billing, and meter reading. These cost are the same whether a customer uses any water or not and the water company has to have the infrastructure available and has to provide those services with or without actual water consumption. The variable, or per gallon, portion of a bill is used to collect costs that change based on the amount of water consumed such as

electric to run motors and pumps, and chemicals. Tidewater bills four times a year or quarterly. A customer using approximately 5,000 gallons in quarter, a relatively small amount of water, would be billed approximately \$110.73 for that quarter, which equates to \$442.92 per year. A customer using, on average, 7,500 gallons per quarter would be billed \$131.51 per quarter, or \$526.04 per year. A customer using an average of 10,000 gallons per quarter would be billed \$152.30 per quarter, which equates to \$609.20 per year.

Once the initial presentations were complete the meeting was opened for discussion, questions and comments. At the end of the meeting, attendees were asked for their input on the proposed plan and it was the general consensus that we should move forward with the proposed solution. As discussed above, the initial step would be to seek Commission approval for the infrastructure to be installed by Tidewater at its cost and for Tidewater to be allowed to request those costs in its rates in the future. The Commission Staff indicated that this initial step should be completed as early as the end of May 2017.

Questions or comments can be directed to Kevin Neilson at the Public Service Commission by calling 302-736-7500 or emailing kevin.neilson@state.de.us.

Sincerely,

The Delaware Public Service Commission